

## Message Text

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PAGE 01 BRUSSE 12747 281456Z  
ACTION EUR-12

INFO OCT-01 IO-13 ISO-00 SP-02 USIA-06 AID-05 EB-07 NSC-05  
CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 L-03 H-01  
PA-01 PRS-01 CIAE-00 COME-00 FRB-03 INR-07 NSAE-00  
XMB-02 OPIC-03 LAB-04 SIL-01 /099 W  
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FM AMEMBASSY BRUSSELS  
TO SECSTATE WASHDC 8693  
INFO AMEMBASSY BONN  
AMEMBASSY COPENHAGEN  
AMEMBASSY LUXEMBOURG  
AMEMBASSY OSLO  
AMEMBASSY PARIS  
AMEMBASSY STOCKHOLM  
AMEMBASSY THE HAGUE  
AMEMBASSY VIENNA  
USMISSION EC BRUSSELS  
USMISSION OECD PARIS  
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PASS TREASURY AND FEDERAL RESERVE

E. O. 11652: N/A  
TAGS: EFIN, ECON, BE  
SUBJECT: BELGIAN EXTERNAL POSITION AT YEAR END

REF: BRUSSELS 10875

1. SUMMARY. BELGIAN FRANCS HAVE CONTINUED THEIR "REFLOW"  
INTO THE LOCAL MONEY MARKET. THE FRANC IS COMFORTABLY CLOSE  
TO ITS POST-OCTOBER PIVOT RATE IN DM, AND THE NATIONAL BANK  
HAS RELAXED INTEREST RATES TO A LIMITED DEGREE. FOR 1976 AS  
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PAGE 02 BRUSSE 12747 281456Z

A WHOLE, THE BELGIUM-LUXEMBOURG ECONOMIC UNION IS LIKELY TO  
HAVE A MODEST DEFICIT (12-15 BILLION BF) ON CURRENT ACCOUNT.  
THIS IS DUE TO MAINLY CYCLICAL FACTORS, BUT STRUCTURAL ASPECTS  
ARE ALSO SIGNIFICANT. EXTERNALLY, THE 1977 OUTLOOK FOR  
THE BF WITHIN THE SNAKE LARGEMLY DEPENDS ON FINANCIAL  
DEVELOPMENTS IN WEST GERMANY AND THE NETHERLANDS. INTERNALLY,

INFLATION, WHILE MODERATING, STILL EXCEEDS THAT OF WEST GERMANY, AND SO CONTINUES AS A MAJOR CONCERN. THE ECONOMIC SLUMP IN THE INDUSTRIALIZED COUNTRIES IS ALSO CAUSE FOR INCREASING UNEASINESS, PARTLY BECAUSE BELGIUM MAY STAND TO SUFFER MORE THAN SOME OTHERS. THIS TREND PLUS STILL WORSENING UNEMPLOYMENT WILL MEAN THAT BELGIAN OFFICIALS WILL BE PUSHING HARDER THAN EVER NEXT YEAR IN INTERNATIONAL FORUMS FOR MORE ECONOMIC STIMULATION BY THE LARGER COUNTRIES IN ORDER TO SPARK REVIVAL HERE. END SUMMARY.

2. THE REFLOW OF BELGIAN FRANCS INTO THE LOCAL MONEY MARKET SINCE LAST OCTOBER'S "MINI-REVALUATION" OF THE WEST GERMAN MARK HAS CONTINUED TO BUOY THE BF'S PARITY VIS-A-VIS ITS SNAKE PARTNERS AND THE MAJOR FLOATING CURRENCIES. ASIDE FROM A WIGGLE OR TWO DURING THE GOVERNMENT'S RECENT INTERNAL POLITICAL DIFFICULTIES, THE FRANC HAS REMAINED ALMOST STATIONARY JUST BELOW ITS NEW PIVOT RATE IN DM. THE NATIONAL BANK (BNB) HAS GRADUALLY RELAXED RATES ON VARIOUS DISCOUNT FACILITIES, BUT THE MAIN DISCOUNT RATE REMAINS AT 9 PERCENT. SHORT-TERM INTEREST RATES HAVE RESPONDED ONLY SLUGGISHLY. THEY ARE CURRENTLY AROUND 10 PERCENT FOR THREE TO TWELVE MONTH MONEY WITH RELATIVELY HIGH LIQUIDITY AND LOW DEMAND. BANKING SOURCES BELIEVE THAT SHORT-TERM RATES MAY, IN FACT, HAVE BOTTOMED OUT; INCREASED BORROWING BY THE TREASURY TO FUND THE BUDGET DEFICIT AND BY SOME QUASI-GOVERNMENTAL AGENCIES COULD MOVE THEM UP AGAIN SOMEWHAT AFTER THE FIRST OF THE YEAR.

3. AS EXPECTED, THE UNWINDING OF SPECULATIVE POSITIONS HAS ALLOWED THE BNB TO RECONSTITUTE MUCH OF THE RESERVES LOST LIMITED OFFICIAL USE

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PAGE 03 BRUSSE 12747 281456Z

DURING THE PERIOD JULY-SEPTEMBER, ITS FECOM DEBT IS FULLY PAID AND FOREIGN CURRENCIES ON HAND TOTAL 81 BILLION BF AS OF DECEMBER 20 (BALANCING CURRENCIES PLUS OTHER LIQUID ASSETS AGAINST SHORT-TERM LIABILITIES, THE BANK'S POSITION IS CURRENTLY PLUS BF 95 BILLION, THE HIGHEST FIGURE SINCE LAST FEBRUARY). BNB OFFICIALS ESTIMATE THAT ITS FOREIGN RESERVES WILL BE DOWN AROUND BF 28 BILLION BY YEAR'S END, COMPARED TO THE END OF 1975.

4. FOR THE FIRST NINE MONTHS OF THE YEAR, THE BELGIUM-LUXEMBOURG ECONOMIC UNION (BLEU) CURRENT ACCOUNT BALANCE ON A PAYMENTS BASIS IS IN DEFICIT BY 26.6 BILLION BF. THIS REFLECTS MAINLY CYCLICAL FACTORS, PARTICULARLY HEAVY INVENTORY RESTOCKING OF BELGIAN INDUSTRY IN EARLY 1976. FOR THE YEAR AS A WHOLE, BNB FORECASTERS ARE CAUTIOUSLY OPTIMISTIC THAT THIS DEFICIT WILL NOT GROW AND THAT IT MIGHT EVEN SHRINK TO ABOUT BF15 BILLION. ONE REASON FOR THIS CONFIDENCE IS THAT EXPORT PERFORMANCE HAS IMPROVED IN RECENT MONTHS;

IN OCTOBER, EXPORTS EXCEEDED IMPORTS FOR THE FIRST TIME THIS YEAR, PUSHING THE EXPORT GROWTH RATE OVER THE FIRST 10 MONTHS OF THE YEAR TO PLUS 20.2 PERCENT. THE B/P CAPITAL ACCOUNT IS NEAR EQUILIBRIUM.

5. ON A TRANSACTIONS BASIS, BNB OFFICIALS PREDICT A CURRENT ACCOUNT DEFICIT OF BF 20-23 BILLION. THIS IS MORE PESSIMISTIC THAN THE MOST RECENT OECD ESTIMATE (ABOUT BF 12 BILLION). THE CURRENT UPSWING IN EXPORTS COULD, HOWEVER, PRODUCE A YEAR-END TRANSACTIONS DEFICIT SOMEWHERE BETWEEN THESE, PERHAPS ALSO AT BF 15 BILLION, ACCORDING TO THESE OFFICIALS.

6. DESPITE THESE ENCOURAGING SHORT-TERM TRENDS, BNB AND OTHER GOVERNMENT ANALYSTS RECOGNIZE THAT THE ECONOMY'S PERSISTENT (ALBEIT STILL SMALL) DEFICIT ON CURRENT ACCOUNT OVER MOST OF THE PAST TWO YEARS ALSO REFLECTS STRUCTURAL FACTORS. CHIEF AMONG THESE IS THE DETERIORATION OF TERMS OF TRADE IN THE BELGIAN STEEL INDUSTRY. THE CONCOMITANT LIMITED OFFICIAL USE

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PAGE 04 BRUSSE 12747 281456Z

TROUBLES OF THE LUXEMBOURG STEEL SECTOR ADD TO THE TREND; THE GRAND DUCHY, ONCE A NET CONTRIBUTOR TO THE BLEU IN B/P TERMS, IS NOW, FOR THE TIME BEING AT LEAST, A NET DEBTOR.

7. THE 1977 OUTLOOK FOR THE BF WITHIN THE SNAKE IS PROBLEMATICAL. BNB OFFICIALS SAY THAT THEIR DUTCH COLLEAGUES EXPECT A CURRENT ACCOUNT SURPLUS OF 6 BILLION GUILDER IN 1976; THE BELGIANS ARE FAR FROM CONFIDENT THAT THE DUTCH WILL BE ABLE TO "EXPORT" ALL THIS SURPLUS, AND THUS BELIEVE THAT SPECULATION ON THE GUILDER COULD UNSETTLE SNAKE MARKETS DURING THE YEAR. THE BNB IS ALSO UNEASY ABOUT GERMAN INTENTIONS AFTER WHAT THEY CHARACTERIZE AS THE "DICTAT" OF OCTOBER ON THE DM REVALUATION. BNB OFFICIALS WITH WHOM WE HAVE SPOKEN BELIEVE THAT THE FRG'S ACTION AT THAT TIME, HELD BY THEM TO HAVE BEEN MOTIVATED BY THE NEEDS OF INTERNAL MONETARY POLICY, COULD BECOME THE FIRST OF A SERIES OF SUCH MINOR ADJUSTMENTS WITHIN THE SNAKE WHICH MIGHT, ACCORDING TO THIS ANALYSIS, ENCOURAGE ANTICIPATORY SPECULATION ON THE DM AND THUS SERVE ULTIMATELY TO SCUTTLE THE ARRANGEMENT.

8. INTERNALLY, INFLATION REMAINS A MAJOR CONCERN. IN TERMS OF KEY SNAKE AND TRADING RELATIONSHIPS, BELGIAN PRICES ARE STILL RISING FASTER THAN THOSE OF WEST GERMANY. GOVERNMENT AND BNB OFFICIALS ARE ENCOURAGED, HOWEVER, BY THE BETTER-THAN-EXPECTED PERFORMANCE OF CONSUMER PRICES IN 1976 (PLUS 7.5 PERCENT ON AN ANNUAL BASIS). THE EFFECT OF THE RECENT OPEC PRICE INCREASES IS A QUESTION MARK, BUT SHOULD BE CUSHIONED SOMEWHAT IF THE FRANC RETAINS ITS PRESENT STRENGTH AGAINST THE DOLLAR (PREVIOUS PRICE CONTRACTS WILL CONTINUE

TO APPLY FOR SOME TIME, IN ANY CASE). INDUSTRIAL WAGE  
INCREASES IN 1976 WERE LOW IN REAL TERMS, AND THERE IS  
CONSIDERABLE OPTIMISM THAT THIS WILL CONTINUE IN 1977  
(SEE BRUSSELS 12582). ON THE OTHER HAND, A CONTINUING  
ECONOMIC SLUMP IN THE INDUSTRIALIZED COUNTRIES COULD HAVE  
A GREATER ADVERSE EFFECT ON BELGIAN PRODUCTION AND TERMS  
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PAGE 05 BRUSSE 12747 281456Z

OF TRADE THAN IN MANY OTHER COUNTRIES (THE THEORY IS THAT  
BELGIAN INDUSTRY, GENERALLY AN INTERNATIONAL PRICE-TAKER,  
DOES BEST IN AN ECONOMIC UPTURN WHEN IT CAN CHARGE PREMIUM  
PRICES IN RETURN FOR THE FAST DELIVERY FOR WHICH IT IS RENOWNED).  
WITH STEADILY WORSENING UNEMPLOYMENT AS WELL (CURRENTLY  
9.4 PERCENT), BELGIAN OFFICIALS THUS CAN BE EXPECTED TO  
PUSH HARDER THAN EVER NEXT YEAR IN THE EC, OECD AND  
OTHER FORUMS FOR MORE ECONOMIC STIMULATION BY THE LARGER  
COUNTRIES, PARTICULARLY GERMANY AND THE U.S., IN ORDER TO  
SPARK REVIVAL HERE.RENNER

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## Message Attributes

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